

Message Text

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ACTION COME-00

INFO OCT-01 EUR-25 IO-13 ADP-00 AID-20 CEA-02 CIAE-00

EB-11 EA-11 FRB-02 INR-10 NEA-10 NSAE-00 RSC-01

OPIC-12 TRSE-00 CIEP-02 LAB-06 SIL-01 OMB-01 PA-03

PRS-01 USIA-12 AGR-20 RSR-01 /165 W
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P R 301709 Z MAY 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 1576

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

USMISSION GENEVA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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FOR COMMERCE

E. O. 11652 N/ A

TAGS: EFIN, UK

SUBJECT: IMPLICATIONS FOR U. S. EXPORTS OF RECENT
FOREIGN EXCHANGE DEVELOPMENTS

REF: STATE 77866

1. SUMMARY: DOLLAR DEVALUATION HAS IMPROVED SALES PRO-
SPECTS FOR U. S. CAPITAL EQUIPMENT SUCH AS PUMPS, VALVES
COMPRESSORS, PROCESS PLANT EQUIPMENT, PRINTING MACHINERY,
MACHINE TOOLS AND OR SOME CONSUMER GOODS, NOTABLY
APPAREL. WHILE LUMBER, STEEL, CERTAIN TEXTILES AND
ELECTRONIC COMPONENTS ALSO MORE COMPETITIVE, SALES
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PROSPECTS FOR THESE PRODUCTS CANNOT BE FULLY REALIZED WHILE U. S. DOMESTIC DEMAND CONTINUES LIMIT PRODUCTION AVAILABLE FOR EXPORT. IN GENERAL U. S. PRICE AND COMPETITIVENESS HAS IMPROVED MUCH MORE SIGNIFICANTLY AGAINST JAPANESE AND CONTINENTAL EUROPEAN, ESPECIALLY GERMAN, GOODS THAN TOWARDS BRITISH PRODUCTS. THE SITUATION WHEREIN POUND CONTINUES FLOAT HIGHER AGAINST DOLLAR IS RELATIVELY RECENT DEVELOPMENT AND NUMBER OF IMPORTERS DOUBT PRICE ADVANTAGE THIS AFFORDS WILL CONTINUE FOR LONG. UK EXPORT TRADE CONTINUES INCREASE AND EXPORT PRICES REMAIN HIGHLY COMPETITIVE. END SUMMARY

2. DOLLAR DEVALUATION HAS CONSIDERABLY BRIGHTENED PROSPECTS FOR SALES OF U. S. MANUFACTURED CAPITAL EQUIPMENT SUCH AS MACHINERY AND ENGINEERING PRODUCTS. FOR MANY CLASSES OF SUCH GOODS US PRICES WHICH WERE CONSISTENTLY ABOVE PRICE OF COMPETING PRODUCTS ARE NOW LEVEL WITH OR BELOW COMPETITOR PRICES. FOR EXAMPLE, PUMPS, VALVES AND COMPRESSORS, WHICH IN SOME INSTANCES WERE UP TO 30 PERCENT HIGHER THAN SIMILAR PRODUCTS ON U. K. MARKET ARE NOW SELLING AT PAR WITH OR SLIGHTLY BELOW FOREIGN COMPETITION. QUOTES FOR PROCESS PLANT EQUIPMENT FOR PETRO- CHEMICAL PROJECTS ARE NOW, IN SOME INSTANCES, EQUAL PRICED WITH EUROPEAN AND JAPANESE EQUIPMENT, A STATE OF AFFAIRS WHICH HAS NOT EXISTED FOR SEVERAL YEARS.

3. SOME TYPES OF US MACHINES IMPORTED FOR THE PRINTING TRADES WHICH CONSISTENTLY RAN 3 TO 5 PERCENT MORE IN PRICE THAN COMPETITIVE PRODUCTS ARE NOW APPROXIMATELY 8 PERCENT LOWER THAN BRITISH AND OTHER EUROPEAN COMPETITORS. MANY TYPES OF HIGH TECHNOLOGY PRINTING AND PHOTOCOMPOSITION MACHINERY AND HARDWARE HOWEVER HAVE LITTLE OR NO NON- US COMPETITION IN THE BRITISH MARKET; THUS POSITIONS FOR ALREADY COMPETITIVE US SUPPLIERS REMAIN MUCH AS BEFORE.

4. IN THE AREA OF MACHINE TOOLS, US EXPORTS HAVE NOW BECOME VERY COMPETITIVE WITH JAPANESE AND GERMAN PRODUCTS. THIS IS IMPORTANT SINCE JAPAN AND GERMANY PROVIDE THEIR CHIEF COMPETITION FOR THE UK MARKET. BROADLY SPEAKING
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US MACHINE TOOLS ARE STILL A GOOD DEAL HIGHER PRICED THAN COMPARABLE BRITISH MACHINES, OFTEN BY AS MUCH AS 20 PERCENT. ADDITIONALLY, ANNUAL PRICE HIKES OF 6 OR 7 PERCENT ARE THE RULE. BRITISH AGENTS ALSO COMPLAIN THAT US MACHINE TOOL MANUFACTURERS DO NOT GRANT SPECIAL EXPORT PRICES. EXPORT LIST PRICES, IN FACT, RUN ABOUT 12.5 PERCENT HIGHER THAN ORDINARY US DOMESTIC PRICES.

SALES OF US MACHINE TOOLS ABROAD AT THE PRESENT TIME ARE ALSO HAMPERED BY AS MUCH AS 18 MONTH DELIVERY TIMES, WHICH IS AN OLD STORY FOR THIS VERY CYCLIC INDUSTRY.

5. A POLL OF SIXTEEN BRITISH FIRMS SELLING U. S. ELECTRONICS IMPORTS TO UK INDUSTRY REPORTED LITTLE EFFECT ON PRICES STEMMING FROM THE EARLY 1973 DOLLAR DEVALUATION. ELEVEN OF THESE FIRMS REPORTED ESSENTIALLY NO EFFECT. THEIR MAIN REASON WAS THAT THE DEVALUATION WAS NOT BIG ENOUGH. SECONDARY REASONS WERE THAT IT IS TROUBLESOME AND EXPENSIVE TO CHANGE PRICES, THAT COST

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IS NOT A MAJOR FACTOR IN SELLING (PARTICULARLY TO MILITARY AND HEALTH MARKETS) AND PERHAPS MORE COGENTLY, THAT THE POUND STERLING MIGHT FLOAT BACK DOWN IN A SHORT TIME, CREATING NEED FOR AN INCREASE IN PRICES. ONLY THREE FIRMS REPORTED A PRICE CUT IN EARLY 1973, 6 PERCENT

IN TWO CASES AND " SLIGHT" IN A THIRD. TWO FIRMS SAID THAT DEVALUATION HELPED TO COUNTER THE EFFECT OF UK INFLATION IN THE COST OF SELLING IN THE UK. ONLY ONE FIRM REPORTED AN INCREASE IN THIRD COUNTRY (GERMAN) PRODUCT PRICES IN THE UK. HOWEVER, THE EMBASSY HAS BEEN APPROACHED BY A NUMBER OF BRITISH BUSINESSMEN IN RECENT MONTHS WHO WISH TO INVESTIGATE THE POSSIBILITY OF CHANGING THEIR SOURCES OF ELECTRONIC EQUIPMENT SUPPLY FROM GERMANY AND JAPAN TO THE U. S.

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6. A FACTOR NOT MENTIONED BY BRITISH IMPORTERS IS THAT THERE IS A GROWING SHORTAGE OF BOTH PASSIVE AND ACTIVE COMPONENTS IN BOTH THE U. S. AND THE U. K. WHICH IS CREATING A " SELLER'S MARKET" BOTH IN COMPONENTS AND IN MUCH ASSEMBLED ELECTRONIC EQUIPMENT. THIS CONDITION TENDS TO VITIATE COMPETITION WHICH IS THE MAJOR REASON FOR PRICE CUTTING. IT SEEMS LIKELY THAT A FULL EVALUATION OF THE EFFECTS OF THE DOLLAR DEVALUATION IN THIS INDUSTRY MUST AWAIT A PERIOD OF LOWER DEMAND WHEN COMPETITIVE FORCES WILL COMPEL PRICE REDUCTIONS WHEREVER POSSIBLE.

7. ALTHOUGH THE OUTLOOK IN TERMS OF CONTINUING DEMAND HERE FOR LUMBER, POPULAR TEXTILE FABRICS SUCH AS DENIM, SOME CHEMICAL PRODUCTS, STEEL AND STEEL PRODUCTS IS GOOD TO EXCELLENT, SHORTAGES DUE TO U. S. DOMESTIC DEMAND ARE CURTAILING OR DELAYING EXPORT DELIVERIES.

8. LOCAL IMPORTERS SAY REVALUATION OF THE YEN HAS HAD A POSITIVE EFFECT ON THE COMPETITIVE POSITION OF U. S. FABRICS, AND ONE LEADING IMPORTER THOUGHT HE COULD DOUBLE HIS SALES TURNOVER THIS YEAR IF ONLY ADEQUATE SUPPLIES FROM THE U. S. WERE AVAILABLE. THE OUTLOOK FOR U. S. CLOTHING HAS ALSO IMPROVED AS SWEDISH AND FRENCH APPAREL IS NOW HIGHER IN THE U. K. ONE MAJOR MENS STORE HAS NOW STARTED CARRYING A LINE OF AMERICAN MADE LIGHT WEIGHT SUMMER SUITS. AMONG OTHER CONSUMER GOODS, AMERICAN HARDWARE, DO- IT- YOURSELF ITEMS AND HOUSEHOLD ACCESSORIES APPEAR MORE COMPETITIVE THAN IN THE PAST. PACKAGED FOOD PRODUCTS WILL CONTINUE TO BE A GROWTH S
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